



Ofgem
9 Millbank
London
SW1P 3GE

Date: 28th May 2014

Dear Sir/Madam,

MeyGen's views on consultation on Scottish Hydro Electric Transmission's proposed transmission project between Caithness and Morray in northern Scotland

This letter sets out MeyGen's views on the above consultation released by Ofgem on 2nd April 2014. This project involves a subsea High Voltage Direct Current (HVDC) cable link between Caithness and Moray to be built by 2018. This is a critical project for MeyGen's success as it is part of the enabling works required for a 237MW renewable energy connection in 2018.

MeyGen is a development company currently focussed on a single project in Scotland to commercialise marine energy utilizing tidal streams. The project is located in Pentland Firth in Northern Scotland, which is an area of very high tidal stream generation potential separating Caithness from the Orkney Islands. MeyGen has an Agreement for Lease with The Crown Estate for the Inner Sound, which is the energetic body of water in the Pentland Firth between Scottish mainland and the Island of Stroma. MeyGen has been granted full consents to build 86MW of the project by Marine Scotland and the balance of the capacity is subject to a separate application.

MeyGen will connect the project to the grid in Caithness. The initial demonstration phase will connect to the Scottish Hydro Electric Power Distribution network in 2016. The larger full commercial role out of the project requires connection to Scottish Hydro Electric Transmission network in Caithness in 2018 which requires the HVDC cable between Caithness and Moray in order to meet this timescale.

The MeyGen project is now nearing financial close expected to occur on 22nd July 2014. This will make it the first tidal array to be built in the UK and in the world. The initial phase of the project will achieve financial close on the basis of a mixture of funding consisting of private equity from Atlantis Resources Limited (ARL), grant funding from both UK Government (DECC) and Highland & Islands Enterprise (HIE), and debt funding from Scottish Government (Scottish Enterprise) and The Crown Estate. All these parties have a common goal to share the risk for the initial phase in order to demonstrate the commercial viability of the technology. This initial phase will be completed in middle 2016 and will ultimately act as showpiece and platform to incentivise investor confidence in the larger project in 2018 and other projects throughout the UK.

MeyGen's shareholders have always appreciated the constraints to grid access in Northern Scotland and given the lead time for upgrades the need for early investment. MeyGen have in place a Construction Agreement with National Grid since early 2012 in order to secure the 237MW capacity. Maintaining programme against this Agreement is critical for investor confidence following on from the initial phase. The most critical aspect of this connection programme is the proposed SHETL HVDC cable between Caithness and Morray Firth.

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The following are MeyGen's answers and views on the consultation questions.

Consultation Questions

- **Question:**

Do you consider SHE Transmission's proposed standalone subsea cable project to reinforce the transmission system in northern Scotland is an appropriate one for consumers at this stage? Please explain reasons behind your views
- **MeyGen response:**

The reinforcement option is the only one which will allow consented projects such as MeyGen to connect at a commercial scale before 2020. If this reinforcement project does not go ahead then the associated delays with the alternative options described in the assessment could have the potential to seriously stifle investor confidence in the Project, in other marine energy projects and consented offshore wind projects relying on the connection.

- **Question:**

What are your views on the timing and scale of SHE Transmissions proposed subsea link to reinforce the transmission system in the Caithness Moray area?
- **MeyGen response:**

The timing and scale of the connection are absolutely necessary in order to allow the MeyGen project to progress at the pace necessary to assist Scotland in meeting legal commitments to reduce emissions by 42 per cent from 1990 levels by 2020.

The timing is also critical for investor confidence in MeyGen's future phases to build on the momentum of a successful demonstration phase. A delay would also have significant knock on effect on investor confidence in marine energy projects nationwide.

- **Question:**

What are your views on the potential wider benefits of SHE Transmission's proposed subsea link? How should wider benefits be measured and evaluated in the Needs Case assessment for SHE Transmission's proposal?
- **MeyGen response:**

The wider benefits of the upgrade potentially include the birth of a new UK based industry and associated job creation and economic benefits in addition to assisting Scotland and the UK to meet its legal commitments to reduce carbon emissions by 2020. It is possible that these benefits may be an order of magnitude higher than just considering just the benefit of the reduced costs of constraining generation.

- **Question:**

Do you consider we (and our consultants) have identified the relevant issues to the Needs Case assessment for the SHE Transmission's proposal? Are there any other factors you think we should examine in order to inform our views on the proposed reinforcements?
- **MeyGen response:**

One of the main factors which have not been included in the assessment is quantification the amount of capacity currently contracted by National Grid which will rely on this particular HVDC line in order to connect prior to 2020. A further eight year delay on these projects could likely put them at risk of never going ahead.

A number of these projects have now been granted consent and this information is readily available however the Needs Case assessment reports that this information is not available. Given these projects have consent and contracted grid connection they should be considered a low risk of not going ahead prior to 2020. The final step most of these projects need to take is securing finance and this HVDC line and associated programme are critical to this step.

MeyGen expect that the assessment should include some quantification of the value of these consented projects to the UK and Scottish economy and also the carbon offset by those projects as a wider benefit.

A further quantification could be made by considering the effect of delaying the additional capacity will likely have a significant impact on which of the generation scenarios occur and hence it is possibly not an accurate comparison to compare options directly against others for the same generation scenario. Hence for example options 2a and 2b are much more likely to cause SP, SSP or reduced deployment scenarios to occur as a result of the delays they introduce for new projects to connect. Approval of option 1a or 1b would increase the probability of a Gone Green scenario.

Yours sincerely,

David Taaffe
MeyGen